

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF HAWAII

-----In the Matter of-----) DOCKET NO. 2008-0273
)
PUBLIC UTILITIES COMMISSION)
)
Instituting a Proceeding to)
Investigate the Implementation of)
Feed-in Tariffs.)
_____)

THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM'S
RESPONSES TO THE PUBLIC UTILITIES COMMISSION'S POST-HEARING
INFORMATION REQUESTS

AND

CERTIFICATE OF SERVICE

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**THE DEPARTMENT OF BUSINESS, ECONOMIC DEVELOPMENT, AND TOURISM'S
RESPONSES TO THE PUBLIC UTILITIES COMMISSION'S POST-HEARING
INFORMATION REQUESTS**

The Department of Business, Economic Development, and Tourism ("Department" or "DBEDT"), through the undersigned Deputy Attorney General, hereby submits to the Hawaii Public Utilities Commission ("Commission" or "PUC") its responses to the Commission's information requests (IRs) prepared by the Commission's consultant, the National Regulatory Research Institute (NRRI), issued on August 3, 2009.

PUC-IR-1

During the course of the hearing and in submittals, certain parties described the difficulty in monetizing state tax credits. The Commission asks for a detailed explanation, citing the specific tax statutes of the tax credits that developers cannot often monetize. If the tax credits are useful for some projects, such as residential solar PV installations, but not others, please specify which projects the specific available tax credits are or are not frequently available for and why.

PUC-IR-1-DBEDT-RESPONSE

The state income tax credits for renewable energy technologies are provided in Act 154 and in Section 15 of Act 155, Session Laws of Hawaii 2009. Both acts became effective on July 1, 2009. The state tax credits provided by these statutes include 35% of the actual costs for solar energy systems and 20% for wind-powered energy systems, subject to specified caps. These tax credits apply to individual and corporate taxpayers, can be monetized, and should be included in the determination of the FiT rates which may be adopted and approved in this docket.

PUC-IR-2

The Commission is evaluating FiT rates that are non-levelized. Like levelized rates, such rates would provide projects recovery of their costs and a reasonable rate of return. Non-levelized rates would increase over time based on predetermined discount or inflation rate. Pages 27 through 29 of Haiku Design and Development's opening brief describe and illustrate such an approach.

The Commission requests that the parties provide feedback on whether such rates, if they provide the same level of compensation (when adjusting for the time value of money) would be practicable for developers. In particular, could debt and equity financing structures accommodate rates that provide lower compensation early on and more compensation later, reducing early cash flow? Would doing so increase the overall required FiT compensation?

PUC-IR-2-DBEDT-RESPONSE

DBEDT offers the following comments and feedback on non-levelized rates.

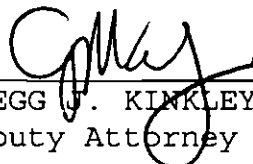
- 1) Non-levelized FiT rates that are lower in the early years and increase over time mean that the developers may not get the return on their investment in the early years. Like any capital market, renewable energy developers would like to get the return on their investments sooner rather than later, so that non-levelized FiT rates may not facilitate the development of renewable power generation in Hawaii.
- 2) Non-levelized FiT rates which result in lower cash flow during the early years may also impede the development of

Hawaii's renewable energy market, as it may inhibit the developer's ability to re-invest in Hawaii's renewable energy market.

- 3) Non-levelized FiT rates could result in higher cost of capital and therefore higher total costs of the renewable power than would result from levelized FiT rates.
- 4) Non-levelized FiT rates may also result in higher total costs of renewable power since the adjustments in rates for the later periods will have to reflect not only inflation (or the time value of money or the increased cost of capital), but also the lower amount of kWh produced by the system due to technology degradation over time.
- 5) Non-levelized FiT rates that increase over time would result in current ratepayers paying less than future ratepayers, resulting in inequitable allocation of the costs of renewable power generation purchased through FiTs.
- 6) The determination of the escalation factor(s) and the frequency of escalation (i.e., annual escalation, periodic adjustment such as every 2 years or 3 years or 5 years

etc.) will add further complexity to the determination of the FiT rates.

DATED: Honolulu, Hawaii, August 13, 2009.



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Certificate of Service

I hereby certify that I have served an electronic copy of DBEDT's responses to the Public Utilities Commission's post hearing information requests issued on August 3, 2009 to the following Parties:

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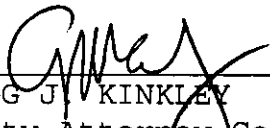
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